HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA

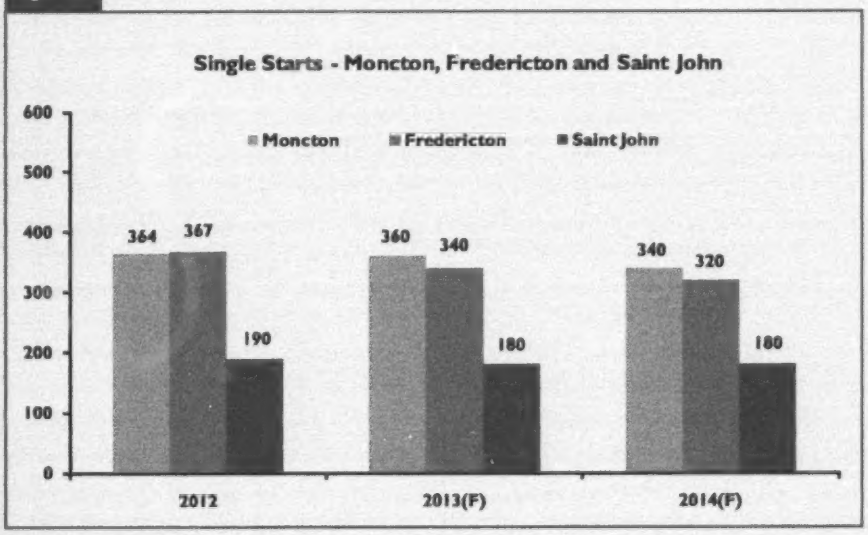
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2013

Limited Economic Growth to Impact Housing Demand

The New Brunswick economy will see limited growth in 2013. The contribution of the natural resources sector, a traditional mainstay of provincial economic activity, is expected to be moderate. The forestry sector, which has experienced a prolonged downturn due to reduced residential construction in the United States, has been slow to recover. Despite signs of improvement in new home starts south of the border, no significant growth in provincial lumber exports is expected until a strong and sustainable recovery in residential construction occurs in the United States.

Figure 1



Source and Forecast: CMHC

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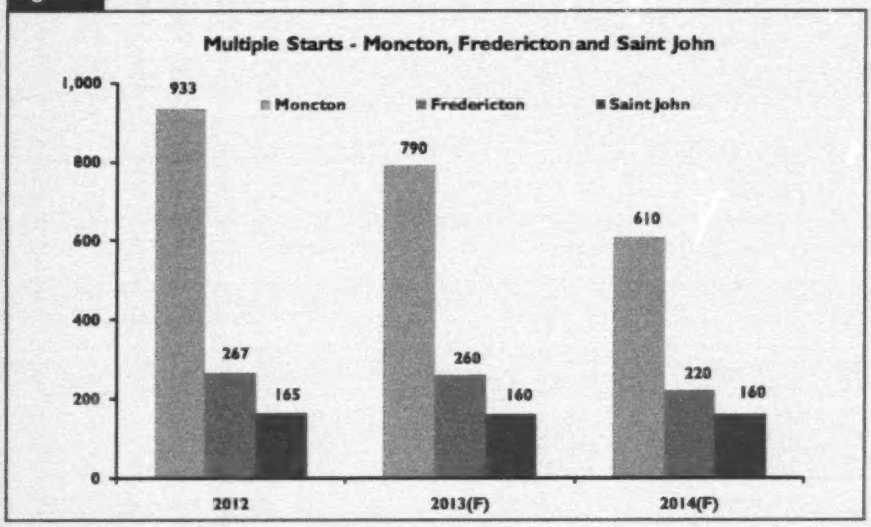
Figure 2



Source and Forecast: CMHC

In the mining sector, activity is expected to decline in 2013 as ore reserves are depleted in the northern section of the province, most notably zinc, lead and copper. A rise in commodity prices, however, could result in the re-opening of currently idled mining operations in the area. Such a result would have minimal impact on the provincial economy in 2013, as the ramp-up in activity would not occur until the latter part of the year at the earliest. In Southern New Brunswick, potash mining operations are ramping up and additional production is expected in 2014. In general terms, mining exports are not expected to grow significantly this year, thereby limiting the industry's ability to generate significant economic growth for the province.

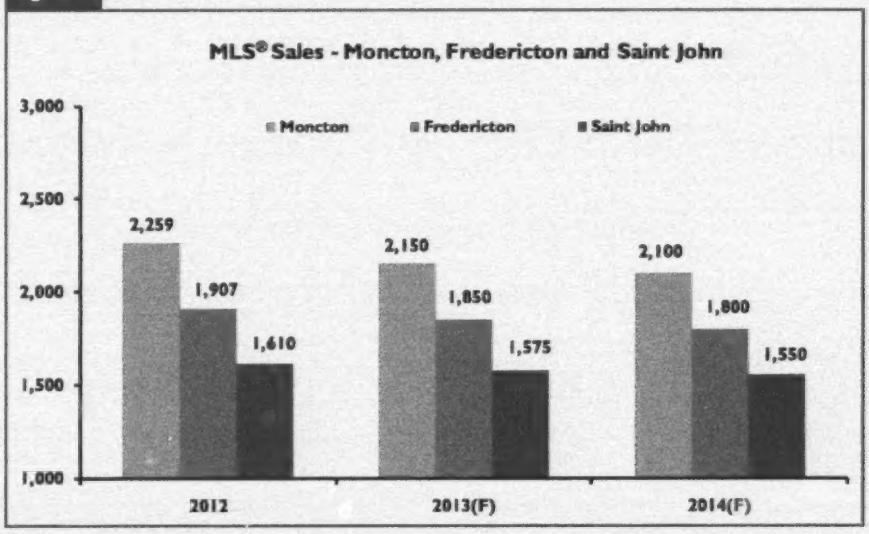
The energy sector, which benefitted from significant capital investment during the past decade, is expected to maintain a stable outlook in 2013, with no new large-scale projects planned. The shale gas industry is slowly expanding in the province. Current activity, however, is mostly limited to exploration. Given the early stage of development of this industry, large-scale production is not expected to occur over the current forecast period.

The limited private-sector capital investment in New Brunswick will not be offset by increased public spending as was the case in past years. Fiscal restraint was the main theme of the 2013-14 provincial budget, with efforts focused on reducing ongoing deficits. Reduced investment in both the public and private sectors will impact the provincial job market as overall employment, having peaked in 2009, is expected to maintain a mild downward trend in the near term. The provincial labour force is also trending lower as out-migration is rising throughout the province, particularly migration to Western Canada. Lower employment levels will resulted in reduced housing demand over the forecast period, with 3,000 starts expected in 2013 followed by a further decline to 2,750 units in 2014.

Mortgage Rates to see Modest and Gradual Increases, but will Remain Low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This

Figure 3



Source: Canadian Real Estate Association (CREA); Forecast: CMHC
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reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Residential Construction to Decline in Large Urban Centres

In Greater Moncton, a decline in total housing starts is expected in 2013 as the addition of new rental stock is expected to moderate over the forecast period. In total, over 1,400 new apartment units were added to the local rental universe between 2010 and 2012. The resulting expansion of the local rental inventory was the most significant increase since the mid-seventies. While population growth has been strong over the past decade, the supply of new apartment units has grown faster than demand, pushing the vacancy rate to 6.7 per cent in the fall of 2012. The average number of units under construction during the second half of 2012 remained above 600 and a total of 143 units were started during the first quarter of 2013. Despite the strong start to the year, apartment starts are expected to decline from last year's total of 532 units, to approximately 400 starts in 2013. This will still maintain upward pressure on the local vacancy rate, leading to a further decline in apartment starts in 2014.

Semi-detached units will remain another key component of the Greater Moncton housing market over the forecast period. Last year marked the seventh consecutive year with at least 300 semi-detached starts in the Moncton CMA. In addition, the average price of new semi-detached units continues to rise as consumers increasingly seek value-added features when shopping for a new home. In 2012, nearly 60 per cent of all new semi-detached units were priced above $150,000. As recently as 2009, less than 10 per cent were priced above that threshold, benefitting first time home buyers. Higher prices will create challenges for some first-time homebuyers and likely will impact demand resulting in fewer starts in 2013 and 2014.

In 2013, single-detached starts are expected to maintain the downward trend that started in 2003 as residential construction in Greater Moncton gradually shifted towards increased multi-residential construction. The widening gap between the cost of a new home and the average price of an existing home caused some potential homeowners to opt for the resale market, further contributing to reduced single-detached starts. Look for single starts to decline to 360 units in 2013, followed by a smaller decline to 340 units in 2014.

In Saint John, economic growth during the past decade was closely linked to the expansion of the energy sector, with several large-scale capital projects serving as the region's main economic driver. The recent decline in construction activity clearly began as these projects neared completion. In each of the last two years, total annual starts in Saint John were below 400 units. A reduced level of activity is expected to continue over the forecast period with approximately 340 starts expected in both 2013 and 2014.

Population growth in Saint John has been limited in recent years, particularly compared to New Brunswick's other large urban centres. This trend has been particularly evident in the rental market. Last fall, the vacancy rate in Saint John was the highest in New Brunswick despite relatively limited construction and only a modest expansion of the local rental inventory. Over the forecast period, new rental construction is expected to proceed at a slower pace than in the province's other large urban centres. With rising out-migration affecting all of New Brunswick, even a small increase in the supply of new rental units will keep the vacancy rate relatively high in Saint John. As such, expect a moderate decline in apartment starts over the forecast period to 120 units. Single starts, which posted the lowest total since 1997 last year, are expected to remain stable with 180 starts anticipated in both 2013 and 2014.

Residential construction in the Fredericton market is expected to be relatively stable in 2013, with moderate declines in both single and multiple starts. The rental market, in particular, will see fewer starts over the forecast period. Since 2009, rental starts have accounted for at least 30 per cent of total starts on an annual basis in New Brunswick's Capital Region as the local vacancy rate remained below 2.6 per cent between 2009 and 2011. Last fall, however, the vacancy rate reflected several years of above average construction activity, rising to four per cent. Given the rising vacancy rate, a decline in apartment starts is expected in both 2013 and 2014.

Single starts, which have followed a downward trend since 2008 in Fredericton, are also expected to decline over the forecast period as supply continues to reflect modest demand in the local market. Despite the expected decrease in activity, the single-detached market in Fredericton is expected to continue to be the primary source of new residential construction in the city. No clear shift towards a larger share of multi-residential construction is expected. Single starts are expected to reach 340 and 320 units in 2013 and 2014, respectively.

Fewer MLS® Sales Expected in Large Urban Centres

The resale market in Greater Moncton will be impacted by a large supply of available homes over the forecast period. Last year, new listings set a record high and after the first three months of 2013, new listings are ahead of last year's pace for the same period. The growing inventory has constrained price growth in recent years. In 2012, the average MLS® sale price posted the first year-over-year decline since 1994. In 2013, the average MLS® sale price is expected to further decline to approximately $156,500. Price growth has also been negatively impacted by reduced demand for existing homes, evidenced by annual MLS® sales in Greater Moncton trending down since 2007. Looking forward, this trend will continue, with an expected decline in MLS® sales ranging between four and six per cent in 2013.

In Saint John, MLS® sales have also trended downwards since 2007. Combined with a record level of new listings, overall resale market conditions have limited price growth. The average MLS® sale price in Greater Saint John has not increased since 2009. Over the forecast period, the average MLS® sale price is expected to maintain the downward trend started in 2010. Individual declines in both 2013 and 2014, however, are expected to be less than one per cent to 167,000 and $166,500, respectively. The moderate rebound in MLS® sales recorded last year is not expected to be repeated over the forecast period. Annual sales are expected to decline to 1,575 units in 2013, with a further decline to 1,550 units in 2014.

The resale market in Fredericton posted strong price growth in 2012 despite reduced MLS® sales. A further reduction in annual sales is expected in 2013, with the overall decline ranging between two and four per cent. A similar decline is expected in 2014. As a result, expect 1,850 MLS® sales this year, and 1,800 units in 2014. The strong price growth observed in the provincial capital in recent years is not expected to continue this year. While the average MLS® sale price is expected to move higher in 2013, the year-over-year increase is expected to be less than two per cent. For 2014, the average MLS® sale price is expected to remain relatively stable, with the possibility of a small year-over-year decrease. The lack of significant price growth moving forward will be due, at least partially, to an increased inventory of available homes, as new listings set a record high in 2012. Expect the average MLS® sale price to reach $182,000 and $181,500 in 2013 and 2014, respectively.

Vacancy Rates to Rise in Large Urban Centres

In Greater Moncton, the significant expansion of the local rental universe and the historically high number of rental units under construction will maintain upward pressure on the local vacancy rate over the forecast period. As a result, expect the local vacancy rate to range between 7.5 and 8.0 per cent in the fall of 2013, with a further increase in 2014.

Having posted the highest rate in the province last year, the vacancy rate in Saint John is expected to remain high over the forecast period. Given that the expansion of the local rental universe has been limited compared to the province's other large urban centres, the expected rise in the vacancy rate will be small. Expect the vacancy rate to be between 10.0 and 10.5 per cent in 2013, with another slight increase possible in 2014.

In Fredericton, rental unit construction remained strong in 2012 and the local vacancy rate increased significantly for the first time in four years. The above average expansion of the rental stock in recent years will maintain upward pressure on the local vacancy rate over the forecast period. Expect the local vacancy rate to be between 4.0 and

4.5 per cent in 2013, with a further increase anticipated in 2014.

In each of New Brunswick's three major urban areas, expect the increase in the average rent for a two-bedroom unit to range between two and three per cent in both 2013 and 2014.

Forecast Summary Moncton CMA Spring 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	462	384	364	360	-1.1	340	-5.6
Multiples	938	810	933	790	-15.3	610	-22.8
Starts - Total	1,400	1,194	1,297	1,150	-11.3	950	-17.4
Average Price ($):							
Single-Detached	257,320	276,730	291,990	288,000	-1.4	292,500	1.6
Median Price ($):							
Single-Detached	239,000	249,900	274,352	252,500	-8.0	254,000	0.6
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	1.5	0.6	-0.1	0.5	-	1.0	-
Resale Market							
MLS® Sales	2,402	2,467	2,259	2,150	-4.8	2,100	-2.3
MLS® New Listings	4,127	4,388	4,601	4,400	-4.4	4,250	-3.4
MLS® Average Price ($)	152,251	158,561	158,106	156,500	-1.0	156,000	-0.3
Rental Market							
October Vacancy Rate (%)	4.2	4.3	6.7	7.8	1.1	8.5	0.7
Two-bedroom Average Rent (October) ($)	691	715	731	745	-	760	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	70,900	71,400	74,200	74,000	-0.3	73,000	-1.4
Employment Growth (%)	-2.5	0.7	3.9	-0.3	-	-1.4	-
Unemployment rate (%)	7.0	7.5	6.8	7.0	-	7.2	-
Net Migration (N.B.)	2,381	670	-1,569	200	-112.7	0	n/a

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Saint John CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	345	220	190	180	-5.3	180	0.0
Multiples	308	141	165	160	-3.0	160	0.0
Starts - Total	653	361	355	340	-4.2	340	0.0
Average Price ($):							
Single-Detached	277,325	315,414	288,966	298,000	3.1	300,000	0.7
Median Price ($):							
Single-Detached	265,000	275,000	279,900	265,000	-5.3	267,500	0.9
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	1.5	0.6	-0.1	0.5	-	1.0	-
Resale Market							
MLS® Sales	1,751	1,572	1,610	1,575	-2.2	1,550	-1.6
MLS® New Listings	3,888	3,986	4,436	4,100	-7.6	3,750	-8.5
MLS® Average Price ($)	171,104	170,354	168,048	167,000	-0.6	166,500	-0.3
Rental Market							
October Vacancy Rate (%)	5.1	5.9	9.7	10.2	0.5	10.7	0.5
Two-bedroom Average Rent (October) ($)	645	670	691	700	-	710	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	64,000	64,700	63,900	64,000	0.2	63,500	-0.8
Employment Growth (%)	-3.2	1.1	-1.2	0.2	-	-0.8	-
Unemployment rate (%)	7.6	6.5	8.7	6.6	-	6.8	-
Net Migration (N.B.)	2,381	670	-1,569	200	-112.7	0	-100.0

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Forecast Summary Fredericton CA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	370	339	367	340	-7.4	320	-5.9
Multiples	324	391	267	260	-2.6	220	-15.4
Starts - Total	694	730	634	600	-5.4	540	-10.0
Average Price ($):							
Single-Detached	245,486	258,868	258,804	258,000	-0.3	262,500	1.7
Median Price ($):							
Single-Detached	239,000	250,000	259,000	248,000	-4.2	251,000	1.2
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	1.5	0.6	-0.1	0.5	-	1.0	-
Resale Market							
MLS® Sales	2,086	2,075	1,907	1,850	-3.0	1,800	-2.7
MLS® New Listings	4,461	4,647	4,794	4,750	-0.9	4,500	-5.3
MLS® Average Price ($)	165,175	170,563	180,485	182,000	0.8	181,500	-0.3
Rental Market							
October Vacancy Rate (%)	2.6	2.5	4.0	4.3	0.3	4.8	0.5
Two-bedroom Average Rent (October) ($)	734	745	771	785	-	795	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	53,275	50,750	49,475	49,750	0.6	49,000	-1.5
Employment Growth (%)	1.2	-4.7	-2.5	0.6	-	-1.5	-
Unemployment rate (%)	5.5	6.5	6.3	6.7	-	6.9	-
Net Migration (N.B.)	2,381	670	-1,569	200	-112.7	0	n/a

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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